Bills Asset Management

BAM MARKET NOTE

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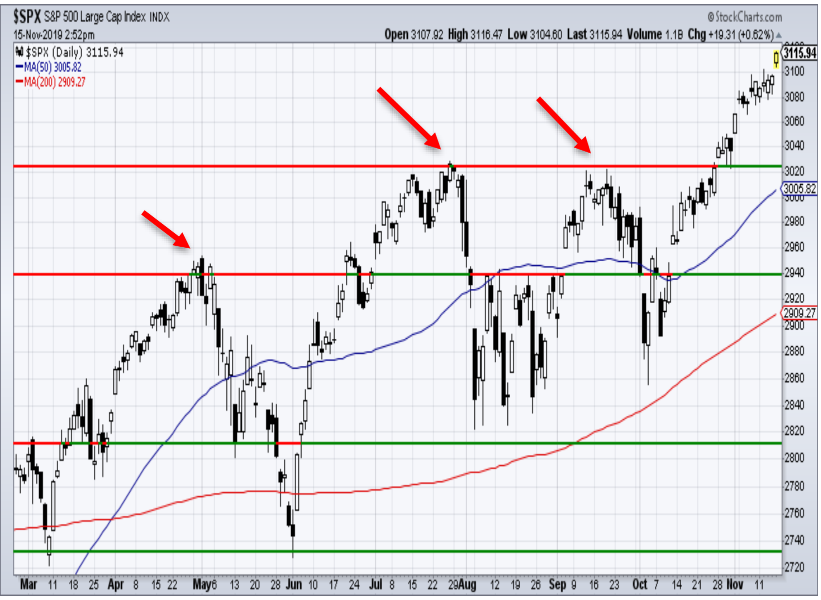
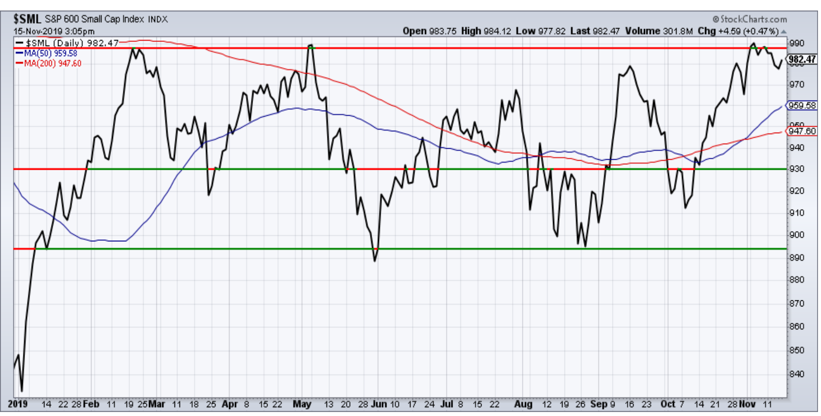


The S&P continued its uptrend this week. The market had mostly moved sideways up until today; but, it appears, that a positive retail sales report provided a bit of excitement on Wall Street as all the major indices are showing gains today. The consumer is the engine behind the US economy so a jolly consumer along with an accommodative Fed is a recipe for higher prices. However, the markets continue to look over-extended. Note the prior times marked by red arrows where the market has drifted far above the 50 day moving average. While the market can remain overbought for awhile in a bull market, there will be a pullback of some importance at some point. The obvious question is when. We don't know, but, despite the euphoria, we are watching things closely. Until such time, enjoy the ride but be wary that this period will not last forever.



Small caps weakened a bit this week but appear to be making another run today at breaking through the long-held resistance about ½% above current levels. As we mentioned last week, a break here would likely lead to significant gains for small caps along with the rest of the market. Small caps look poised for an overdue run as we enter an historically very favorable time for this aggressive sector. Investors would be well-served by monitoring this chart over the next few weeks.

Our Point

The impeachment drama began this week in earnest but Wall Street is shrugging. To this point, it doesn't appear that investors have heard anything to suggest that any House impeachment would result in a Senate trial that would lead to the removal of President Trump. Obviously, if that changes then the markets would be roiled by the uncertainty that removal would create. The markets are indifferent to political parties but don't like uncertainty. Earnings season continues to wind down with most agreeing that results were in line with expectations. Fed fund futures are pricing in only a 5% chance of any interest rate cuts by year end and have reduced their expectations of further rate cuts in 2020 to only 50%. Interest rates have responded accordingly as the 10 year treasury yield has climbed 20% over the last month. The rise in rates accompanied by renewed strength in the equity markets have resulted in a weakening bond market along with other defensive interest rate sensitive sectors. We may have seen the low in interest rates until the next recession. Over the last two weeks, we have continued to reposition our portfolios to capture the likely continued gains over the course of the next month or two. We made a few minor changes this week. The markets are due for a 1-3% pullback. Positions should be added on any such pullback and we will make further changes as long as the market decline is contained. Just when I write off the Vols and Titans, they go out and both win big games. With both teams off this weekend, I will spend it raking again! Bundle up and enjoy your sunny but cool weekend.